



# AGENCIES OF THE SECRETARY OF TRANSPORTATION

## REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2017

Auditor of Public Accounts  
Martha S. Mavredes, CPA  
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## AUDIT SUMMARY

This report summarizes our fiscal year 2017 audit results for the Department of Transportation (Transportation) and the Department of Motor Vehicles (Motor Vehicles). Collectively these two agencies spent \$5 billion or 85 percent of the total expenses for agencies under the Secretary of Transportation.

Our audits of these agencies found:

- Proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and financial reporting system, each agency's accounting records, and other financial information reported to the Department of Accounts (Accounts);
- Eight findings involving internal control and its operation necessary to bring to management's attention. Of these findings, three are considered to be material weaknesses. One finding is repeated from the previous year, and two are partially repeated from the previous year; and
- Five out of the eight findings are also considered to be instances of noncompliance with applicable laws and regulations that are required to be reported.

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## INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

### *Department of Transportation*

#### Why the APA Audits Service Concession Arrangements

Transportation capitalized over \$1.5 billion of tolling facility assets in fiscal year 2017 from a service concession arrangement for the Elizabeth River Crossings megaproject. The capitalization of these assets is material to the Commonwealth's Comprehensive Annual Financial Report. We audited the valuation and classification of project assets capitalized. Our test work on the fiscal year 2017 service concession arrangement resulted in the following recommendation to management.

#### Improve Internal Controls over Financial Reporting of Service Concession Arrangements

**Type:** Internal Control

**Severity:** Material Weakness

**Repeat:** No

Transportation did not properly account for the capital assets and commitments resulting from the \$1.5 billion Elizabeth River Crossings service concession arrangement to build, improve, and operate the resultant tolling facilities, roadways and tunnels; and did not properly disclose the terms of the newest \$2.3 billion service concession arrangement to build and operate express lanes on Interstate 66. Transportation's Fiscal Division does not have sufficient internal controls in place to ensure assets capitalized through service concession arrangements and related disclosures are accurately reported. As a result, we noted the following inaccurate valuations and disclosures:

- The Fiscal Division did not include \$64 million in project oversight costs and did not properly allocate all project costs for the Elizabeth River Crossings when valuing the resulting assets. Instead, the Fiscal Division included these costs within the overall capitalized amounts for Transportation's constructed infrastructure. The improperly allocated and excluded costs included project mobilization, design, and other administrative costs. This resulted in the Fiscal Division undervaluing the new Midtown Tunnel, a non-depreciable asset, by \$304 million and overvaluing the renovated Downtown Tunnel and Martin Luther King Expressway, depreciable assets, by \$247 million. Uncorrected, these inaccurate valuations would result in inaccurate depreciation in future years, overstating depreciation expense every year.
- The Fiscal Division did not accurately depict the terms of the Interstate 66 agreement in its financial disclosure. The disclosure overstated the value of the concessionaire

corridor improvement payments by \$32 million; did not address the fact that the payment amounts disclosed were net present value numbers and not actual payments; and did not disclose that future concessionaire payments to Transportation would be at risk for non-payment based on concessionaire performance. In addition, the Fiscal Division did not disclose a commitment of \$23 million for future construction related to the Elizabeth River Crossings agreement.

The inaccurate valuations and disclosures described above occurred because the Fiscal Division was not prepared for the complexity of the Elizabeth River Crossings and Interstate 66 service concession arrangements, and did not have a thorough understanding of the individual agreements or the governmental accounting standards applicable to these arrangements. The Fiscal Division was reactive rather than proactive in dealing with the reporting for these agreements, not initiating the process to accumulate the necessary information until after fiscal year end and less than one month before the capitalization and disclosures were due to Accounts. In addition, the Fiscal Division relied on non-accounting personnel to interpret the agreements and provide them with information for financial reporting and disclosure. In doing this, the Fiscal Division has no assurance that everything from the agreement is properly reported or disclosed. Several internal control factors contributed to the inaccurate valuations and disclosures, including:

- The Fiscal Division has inadequate policies and procedures addressing how to account for the complexities of large transportation projects delivered through service concession arrangements.
- The Fiscal Division properly determined that the Midtown Tunnel should be a non-depreciable asset and the Downtown Tunnel and Martin Luther King Expressway should be depreciable assets. The Fiscal Division did not consider the effect that having both non-depreciable and depreciable project assets would have on the process of valuing and capitalizing the Elizabeth River Crossings assets, since in previous service concession arrangements all related assets have been one or the other.
- The Fiscal Division valued project assets of the Elizabeth River Crossings service concession arrangements using oversimplified assumptions.
- The Fiscal Division did not consider the requirements of Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, and Statement No. 72, *Fair Value Measurement and Application*, in valuation of assets when capitalizing the non-depreciable Midtown Tunnel, resulting in the Fiscal Division attributing zero dollars of mobilization and design costs to the asset.

The misstatements and lack of internal controls defined above constitute a material weakness in the Fiscal Division operations of Transportation.

GASB Statement No. 60 requires Transportation to report any new facility created or improvement made to an existing facility through service concession arrangements as a capital asset at fair value when placed in operation. However, GASB Statement No. 72, effective for fiscal years 2016 and later, states that acquisition value should be used for capital assets that a government receives in a service concession arrangement. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. GASB Statement No. 60 also requires that disclosures related to service concession arrangements include: general description of the arrangement, the nature and amounts of assets, liabilities and deferred inflows of resources, and significant contract terms of the agreement.

With the capitalization of the Elizabeth River Crossings assets, service concession arrangement assets comprise ten percent of all of Transportation assets. When construction of the Interstate 66 service concession arrangement assets is complete, approximately 20 percent of Transportation's assets will be attached to service concession arrangements. This percentage will continue to grow as the Commonwealth continues to use service concession arrangements to build Transportation infrastructure, increasing the need for Transportation to have sound internal controls over the financial reporting of these assets.

Transportation should create and implement a comprehensive policy and procedure for understanding, reviewing, assessing, and accounting for service concession arrangements. The policy and procedure should be robust enough to anticipate complex projects with a mixture of depreciable and non-depreciable assets. The policy and procedure should ensure coordination between the departments within Transportation that have the working knowledge of the agreements to enable the Fiscal Division to adequately and accurately account for service concession arrangements. The policy and procedure should also include, but not be limited to: identifying projects and their expenditures for consideration in accurately valuing service concession arrangement assets; making accurate and adequate disclosures through thorough review of the service concession arrangements and applicable GASB accounting standards; developing reasonable methods to determine the acquisition value of capitalizable assets; and monitoring service concession arrangements throughout their life cycle to ensure proper reporting and recording of all aspects of the agreement, including any improvements to the constructed assets later in the life of the agreement. The Fiscal Division should review and incorporate applicable GASB standards into its policies and procedures.

### Why the APA Audits Financial Reporting

Transportation processed over \$5 billion in expenditure transactions and submitted over 60 financial statement attachments and disclosures to Accounts during the fiscal year. We reviewed Transportation's financial reporting to ensure that its activity was accurate, complete, and properly reported. Subsequently, our testwork resulted in the following management recommendation.

### Improve Internal Controls over Financial Reporting

**Type:** Internal Control and Compliance

**Severity:** Material Weakness

**Repeat:** No

Transportation needs to strengthen its internal controls over financial reporting. During the audit period, Transportation had approximately \$101 million in aggregate audit adjustments, the majority of which related to financial statement disclosures to Accounts. Misstatements identified during the audit include:

- Transportation understated its commitment liability by approximately \$65 million. Transportation reported commitments for construction projects but did not report commitments for other instances where there is a contractual obligation to a contractor. Transportation was required to disclose any non-construction commitments that aggregate to \$5 million or more on its Supplemental Item 59 or Capital Asset submission to Accounts. However, Transportation did not identify the requirement to report these commitments and omitted them from its submission to Accounts. In addition, Transportation did not have a process in place to identify non-construction commitments.
- Transportation did not properly record reimbursements received from the Virginia Department of Emergency Management in the Commonwealth's accounting and financial reporting system, which resulted in a \$28 million understatement to expenditures and revenues. Transportation recorded these reimbursements using an expenditure credit even though the initial expenditure occurred in prior years. Accounts' 2017 fiscal year-end closing procedures explicitly states that expenditure credits are appropriate only if the expenditure occurred in the same fiscal year as the recovery. Using expenditures credits increases Transportation's appropriation and gives them additional authority to spend even though it is not applicable to the current fiscal year.
- Transportation overstated its liability related to employee's leave balances by approximately \$8 million. Account's Directive No. 1-17 for Attachment 6C requires

agencies to consider maximum leave payouts for annual and traditional sick leave when computing leave liability. Transportation's report used to generate the leave liability did not consider this requirement and Transportation did not identify this error before submitting the financial statement submission to Accounts.

Transportation did not identify these misstatements because it did not correctly interpret the reporting requirements for these transactions and did not implement a process to ensure it properly reports this information to Accounts. As a result, we consider this a material weakness in internal control over financial reporting. All submissions to Accounts are required to be submitted by the established due dates and contain complete and accurate information, according to Account's Comptroller Directive No. 1-17. Additionally, Topic 10305 of the Commonwealth's Accounting Policy and Procedure manual requires management to establish and maintain an effective system of internal control to protect the integrity and objectivity of the financial transactions and information provided to the State Comptroller. Without maintaining an effective system of internal control, Transportation cannot provide assurance that its financial statement submissions are materially correct and accurately represent its operations to meet the Commonwealth's financial reporting needs.

Transportation's Fiscal Division processes over \$5 billion in expenditure transactions per year and has over 60 financial statement submissions to prepare and submit to Accounts at year end within a short window of time. The majority of the financial activity and submissions to Accounts are without error; however, there are some processes as noted above that need improvement. Therefore, we encourage Transportation's Fiscal Division to be proactive in its financial reporting initiatives, actively seek out guidance from Accounts, and implement additional processes where needed. Improved financial reporting controls will help ensure Transportation's financial statement submissions are materially correct and accurately represent its operations to meet the Commonwealth's financial reporting needs.

#### Why the APA Audits Payroll and Human Resources

Transportation's payroll expenditures exceeded \$648 million during the fiscal year. Transportation employs over 8,000 salaried and wage employees across central office and nine district offices. We consider payroll and human resources controls to be critical since the agency initiates a significant number of transactions. To determine whether controls were adequate, we compared agency practices against their own policies as well as the requirements set by the Accounts and Department of Human Resource Management. Our testwork resulted in the following two management recommendations.



## **Continue to Improve Internal Controls over Retirement Contribution Reconciliations**

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** Partial

**Prior Title:** Retain Documentation Supporting Retirement Contribution Reconciliations

Transportation's Human Resource Division (Human Resources) needs to continue to strengthen its internal controls governing its reconciliation between the Commonwealth's human resources and retirement benefits systems. Human Resources performs these reconciliations in order to substantiate the data recorded in the Commonwealth's retirement benefits system, which is the source for determining retirement payments to employees and estimating the Commonwealth's pension liability. Of the 25 reconciling items tested during our review, we noted the following deficiencies:

- Nine reconciling items were not resolved prior to Transportation's monthly snapshot confirmation. This confirmation takes place no later than the tenth day of the month following the reconciliation month and Human Resources uses this reconciliation to certify the accuracy of an employee's creditable compensation, service, and contributions.
- Human Resources did not retain supporting documentation to show that the difference was reconciled for 11 of the reconciling items. Although Human Resources performs reconciliations weekly, it does not retain documentation to show the cause of the reconciling item, when it was resolved, and how it was resolved.
- Human Resources does not retain a complete file for its weekly reconciliations. Instead, Human Resources only retains an audit log of all of the reconciling differences. Without retaining the full reconciliation, Human Resources cannot fully demonstrate that it performed a reconciliation for all employees.

Topic 50410 of the Commonwealth's Accounting Policy and Procedure manual requires the agency to complete the reconciliation prior to certifying the snapshot confirmation. In addition, the same topic requires agencies to maintain employee enrollment information and any supporting documentation for audit purposes.

Transportation generates an average of 400 reconciling items on a weekly basis during its reconciliation process. With over 8,000 employees, it takes Human Resources an extensive amount of time to research the differences and make the appropriate adjustments. While Human Resources tasks its district offices with determining the cause of the reconciling differences, it only has one person assigned part-time to making the adjustments in the Commonwealth's retirements benefit systems. As evidenced above, these adjustments do not always happen prior to the monthly snapshot confirmation. Without devoting the appropriate amount of resources to the reconciliation process and maintaining the appropriate supporting documentation, Human Resources cannot provide assurance that employee records in the Commonwealth's retirements benefit systems are accurate.

Human Resources should strengthen its internal controls governing its reconciliation process to include ensuring that it retains the proper documentation to show that the reconciliation is complete prior to the snapshot confirmation. Human Resources may need to review its current staffing levels and determine if additional staffing is necessary to accomplish this.

**Complete Separating Employee Checklists Timely**

**Type:** Internal Control

**Severity:** Significant Deficiency

**Repeat:** No

Supervisors at Transportation are not completing Separating Employee Checklists in a timely manner. According to the Human Resources' instructions for completing the Separating Employee Checklist, supervisors are required to complete the checklist to ensure that separating employees are returning property belonging to and money owed to Transportation before their separation date. We noted the following deficiencies throughout our testing of various payroll and Human Resources processes:

- Human Resources did not have a Separating Employee Checklist for three of the employees.
- Supervisors did not complete the Separating Employee Checklist as soon as they became aware of the employee's separation for one employee. As a result, it appeared that this employee subsequently logged into the Commonwealth's accounting and financial reporting system after their separation date.

Transportation employs over 8,000 employees and had over 800 separations during the period under review. Human Resources was unaware of these deficiencies because it was not monitoring this process. Without oversight, Human Resources cannot confirm that supervisors are adhering to the policy. Additionally, this makes it difficult for Transportation to confirm that it is collecting property from separating employees and disabling access to mission critical systems in a timely manner. These weaknesses elevate the risk for malicious activity to occur within Transportation.

In an effort to provide more oversight, Human Resources is working towards developing metrics to monitor compliance with the separation checklist requirements into its Human Resources Division Scorecard. Human Resources plans to compare the total number of separations to the number of Separating Employee Checklists, by division, in its document management system to gauge compliance with the policy. Human Resources will then work with each division, as necessary, to implement corrective action. Human Resources should continue to strengthen its policy related to employee separations, provide training to supervisors, and develop processes to confirm that supervisors are completing Separating Employee Checklist timely.

### Why the APA Audits Financial Reporting

Motor Vehicles collected over \$2.7 billion in various taxes and fees including, but not limited to, motor vehicle sales and use tax, vehicle registrations, fuels tax, fishing licenses, and birth certificates. We have audited the receipt of these funds and Motor Vehicles' financial reporting to ensure its activity was accurate, complete and properly reported. Subsequently, our testwork resulted in the following recommendation to management.

### Improve Controls over Financial Reporting

**Type:** Internal Control

**Severity:** Material Weakness

**Repeat:** Yes

Motor Vehicles continues to lack sufficient internal controls over its financial reporting process. During last year's audit, we found significant errors related to payables and unearned revenue. This year, we found no issues with the reporting of unearned revenue; however, payables continue to be an issue along with other areas not previously identified. We have identified several significant misstatements exceeding \$35 million in the recording of payables and reporting of unaudited financial submissions to the Accounts for inclusion in the Commonwealth's Comprehensive Annual Financial Report (CAFR). Specifically, the errors identified include:

- Financial Management Services failed to record a \$12.8 million payable for wholesale fuel tax payments collected and remitted to the local transportation entities in fiscal year 2018 that relate to fiscal year 2017 tax reporting periods. In addition, Financial Management Services did not report a \$7.5 million receivable to account for wholesale fuel taxes collected in fiscal year 2018 that relate to fiscal year 2017 tax reporting periods. This was due to an oversight in financial reporting since fiscal year 2014 when the Department of Taxation transferred the administration and collection of this tax to Motor Vehicles.
- Financial Management Services reported the same motor fuels tax receivables on two separate submissions to Accounts, which overstated Motor Vehicles' receivables by \$7.8 million in fiscal year 2017. This practice has been ongoing for at least the past two years. Different individuals in Financial Management Services prepared the two submissions, and Motor Vehicles' Controller did not perform an adequate review of the submissions to identify the duplication. Financial Management Services relies on the Tax Services Division to provide this information for inclusion in the unaudited submissions prepared for Accounts. However, the Controller is not providing adequate guidance to

Tax Services to ensure they are providing the correct information for accurate financial reporting.

- Despite the fact that Accounts provides Commonwealth agencies with guidance regarding the proper accrual of federal receivables, Financial Management Services did not report \$3.2 million as a federal receivable to offset the amount of fiscal year 2017 federal payables. In addition, federal payables were overstated by at least \$1.5 million due to grants reporting staff misinterpreting the guidance provided by Financial Management Services.
- Financial Management Services addressed an issue noted in the prior year related to regular payable vouchers, but improperly recorded other payables transactions, including revenue sharing payments to other entities for special plates, and vouchers with goods and services crossing the fiscal year. This resulted in an adjustment of \$2.6 million.

A well-designed internal control environment over financial reporting should prevent and/or detect these errors during the ordinary course of business. However, Financial Management Services' lack of knowledge of generally accepted accounting principles and the Commonwealth's financial reporting requirements creates an environment in which reporting errors happen and go undetected. The quality of Financial Management Services' review over submissions to Accounts contributed to these errors. As a result, we consider this a material weakness in internal control. If left uncorrected, these errors would present a misleading picture of the Commonwealth's available financial resources.

Accounts' Financial Reporting Directive No. 1-17 from the Office of the Commonwealth's Comptroller states that all information in a submission to Accounts must be reviewed, certified as complete and accurate, and prepared in accordance with generally accepted accounting principles. This guidance also provides assistance to those who prepare and review financial reporting attachments and supplemental information sent to Accounts for presentation in the CAFR.

Management should allocate resources to train those preparing and reviewing financial submissions so they are knowledgeable in generally accepted accounting principles and Commonwealth financial reporting requirements. Financial Management Services should regularly evaluate their financial activity and accounting practices and work with Accounts to ensure that these practices are in line with generally accepted accounting principles and the Commonwealth's guidance. Management should also ensure policies and procedures are in place for all of the agency's critical processes, including financial reporting. Financial Management Services should provide adequate guidance to other divisions providing support for financial reporting to ensure accurate reporting. Lastly, management should ensure an independent reviewer with knowledge of operations and accounting, reviews each submission for accuracy prior to sending it to Accounts.

### Why the APA Audits Information System Security

Motor Vehicles collects, manages, and stores significant volumes of financial and personal data within its mission critical systems. Because of the highly critical nature of this data, Motor Vehicle's management must take all necessary precautions to ensure the availability, integrity, and security of the data within its systems. We compared Motor Vehicle's practices to those required by the Commonwealth's Information Security Standard in the areas of database security, web application security, oversight of sensitive systems, and information system access. Subsequently, our information system security testwork resulted in the following three recommendations to management.

#### Continue Improving Application Security Controls

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** Partial

**Prior Title:** Improve Application Security Controls

Motor Vehicles continues to operate one of its mission critical and sensitive applications without certain security controls. The details of these control weaknesses have been communicated to management in a separate document marked Freedom of Information Act Exempt (FOIAE) under §2.2-3705.2 of the Code of Virginia due to its sensitivity and description of security controls.

The Commonwealth's Information Security Standard, SEC-501 (Security Standard), requires implementing specific controls to reduce unnecessary risk to data confidentiality, integrity, and availability. By not implementing the controls discussed in the FOIAE communication, the system is not secure against known vulnerabilities. This increases the risk for malicious users to exploit those vulnerabilities and compromise sensitive Commonwealth data.

Motor Vehicles' Information Technology division (Information Technology) made progress to address one of the weaknesses resulting from last year's audit, but due to competing priorities in the Information Technology environment, they have not completed corrective action for the remaining weaknesses. Information Technology has plans to remediate the weaknesses by September 2018. Information Technology should continue dedicating the necessary resources to improve the controls discussed in the communication marked FOIAE to meet the requirements in the Security Standard.

#### Improve Database Security

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** No

Information Technology does not secure the database supporting its financial reporting system in accordance with the Security Standard and industry best practices. The Security Standard requires

agencies to implement certain minimum controls to safeguard data that is stored in database systems. We identified nine control weaknesses and communicated the details of these weaknesses to management in a separate document marked FOIAE under §2.2-3705.2 of the Code of Virginia due to its sensitivity and description of security controls.

Information Technology upgraded the system in the spring of 2017, which caused configuration settings to revert to default parameters unbeknownst to Information Technology. Information Technology did not follow their process to compare the database's configuration to their hardening baseline after an upgrade to ensure settings and configurations align with the Security Standard and best practices.

Information Technology should allocate the necessary resources to ensure database configurations, settings, and controls align with the requirements in the Security Standard and industry best practices, such as the Center for Internet Security Benchmark. Doing this will help maintain the confidentiality, integrity, and availability of sensitive and mission critical data.

#### **Improve Information Technology Change Management Program**

**Type:** Internal Control and Compliance

**Severity:** Significant Deficiency

**Repeat:** No

Motor Vehicles does not have an appropriate process for documenting and maintaining change and configuration management documentation. There are multiple weaknesses in this process, including documentation inconsistencies, security concerns for confidentiality, integrity, and availability of sensitive system and configuration information, and documentation retention. The details of the control weaknesses have been communicated to management in a separate document marked FOIAE under §2.2-3705.2 of the Code of Virginia due to its sensitivity and description of security controls.

The Security Standard, section CM-3, requires Motor Vehicles to document proposed changes and decisions associated with system changes, audit and review activities associated with system changes, and retain records of system changes for a minimum of one year.

The weaknesses in the FOIAE communication are due to Motor Vehicles experiencing delays in procuring a new change management ticketing software. The ticketing software is contingent on the Virginia Information Technologies Agency completing a project scheduled for completion in the summer of 2018. Motor Vehicles plans to implement the new change management ticketing software by October 2018.

Motor Vehicles should implement corrective controls as discussed in the communication marked FOIAE to meet the requirements in the Security Standard and industry best practices.



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

December 15, 2017

The Honorable Ralph S. Northam  
Governor of Virginia

The Honorable Robert D. Orrock, Sr.  
Chairman, Joint Legislative Audit  
and Review Commission

We have audited the financial records and operations of the **Agencies of the Secretary of Transportation**, as defined in the Audit Scope and Methodology sections below, for the year ended June 30, 2017. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **Audit Objectives**

Our audit's primary objective was to evaluate the accuracy of the Agencies of the Secretary of Transportation's financial transactions as reported in the Comprehensive Annual Financial Report for the Commonwealth of Virginia for the year ended June 30, 2017. In support of this objective, we evaluated the accuracy of recorded financial transactions in the Commonwealth's accounting and financial reporting system, in each agency's accounting records, and other financial information reported to the Department of Accounts; reviewed the adequacy of their internal control; tested for compliance with applicable laws, regulations, contracts, and grant agreements; and reviewed corrective actions of audit findings from prior year reports.

## **Audit Scope and Methodology**

Management of the Agencies of the Secretary of Transportation has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts and grant agreements. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

**Department of Transportation**

- Accounts receivable and revenues
- Accounts payable and disbursements
- Capital asset management
- Cash and debt management
- Contract procurement and management
- Federal revenues and expenses
- Financial reporting
- Information security and general system controls
- Inventory
- Payroll and other expenses

**Department of Motor Vehicles**

- Accounts receivable and revenues
- Financial reporting
- Information security and general system controls
- Payroll and other expenses

The Department of Aviation, the Department of Rail and Public Transportation, Motor Vehicle Dealer Board, and Virginia Port Authority also fall under the control of the Secretary of Transportation. However, these agencies are not material to the Comprehensive Annual Financial Report for the Commonwealth of Virginia. The Virginia Port Authority was audited by other auditors and their report can be found at [www.apa.virginia.gov](http://www.apa.virginia.gov). Accordingly, these agencies were not included in the scope of this audit.

We performed audit tests to determine whether the agencies' controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the agencies' operations. We performed analytical procedures, including budgetary and trend analyses. We confirmed cash and investment balances with outside parties. We also tested details of transactions to achieve our objectives.

A nonstatistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

**Conclusions**

We found that the Agencies of the Secretary of Transportation properly stated, in all material respects, the amounts recorded and reported in the Commonwealth's accounting and financial reporting system, each agency's accounting records and in other information reported to the Department of Accounts for inclusion in the Comprehensive Annual Financial Report for the Commonwealth of Virginia.



Our consideration of internal control was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; and therefore, material weaknesses and significant deficiencies may exist that were not identified. However, as described in the section titled “Internal Control and Compliance Findings and Recommendations,” we identified deficiencies in internal controls that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies in internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial information will not be prevented, or detected and corrected on a timely basis. We have explicitly identified three findings in the section titled “Internal Control and Compliance Findings and Recommendations,” to be material weaknesses for the Commonwealth.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We have explicitly identified five findings in the section titled “Internal Control and Compliance Findings and Recommendations,” as significant deficiencies for the Commonwealth.

As the findings noted above have been identified as material weaknesses or significant deficiencies for the Commonwealth, they will be reported as such in the “Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards,” included in the Commonwealth of Virginia Single Audit Report for the year ended 2017.

The Agencies have taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

#### **Exit Conference and Report Distribution**

We discussed this report with management on January 8 and January 11, 2018. Management’s response to the findings identified in our audit is included in the section titled “Agency Response.” We did not audit management’s response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

JDE/alh



## COMMONWEALTH of VIRGINIA

DEPARTMENT OF TRANSPORTATION  
1401 EAST BROAD STREET  
RICHMOND, VIRGINIA 23219-2000

Stephen C. Brich, P. E.  
COMMISSIONER

January 23, 2018

Ms. Martha S. Mavredes  
Auditor of Public Accounts  
Post Office Box 1295  
Richmond, Virginia 23219

Dear Ms. Mavredes:

The Department of Transportation appreciates the opportunity to respond to the Commonwealth Transportation Fund audit for Fiscal Year 2017. The Department concurs with your recommendations and has already begun or completed corrective action on the areas of concern:

### **Improve Controls over Financial Reporting of Service Concession Arrangements**

The Department understands the significance of infrastructure capitalization and has successfully reported in previous fiscal years on service concession arrangements as required by Governmental Accounting Standards Board (GASB) Statement No. 60. The Elizabeth River Crossing project was a particularly complex service concession arrangement, requiring assignment of the \$1.5 billion in costs to multiple assets with varying depreciation schedules. The Department recognizes that current and future planned use of service concession arrangements to deliver major construction projects will continue to increase and make up a large portion of its capitalized assets. To address this, the Fiscal Division has added a full time position assigned to infrastructure capitalization, to include reporting on service concession arrangements. To strengthen the accounting for capital assets and related disclosures, the Department is planning for a revised and more comprehensive process to identify, understand, monitor, disclose and account for service concession arrangements. In addition, the Department will increase communications among its divisions and project managers to ensure accurate reporting and disclosures.

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Ms. Martha S. Mavredes  
January 23, 2018  
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**Improve Internal Controls over Financial Reporting**

Accurate financial reporting is extremely important and to which the Department gives the highest level of attention and consideration. Significant improvements in planning for the huge and time-constrained effort have been made in recent years to ensure that each submission has undergone at least one comprehensive review prior to transmittal to the Department of Accounts. The Department plans to improve internal processes for the concerns identified as well as continue to work with the Department of Accounts to develop a shared understanding of expectations for fiscal year 2018 reporting and beyond.

**Continue to Improve Internal Controls over Retirement Contribution Reconciliations**

The Department recognizes the challenges encountered with reconciliation of three externally managed systems – the Commonwealth Integrated Personnel and Payroll System (CIPPS), the Personnel Management Information System (PMIS) and the Virginia Retirement System's (VRS) *myVRS* Navigator. We continue to work towards reconciling multiple systems that are not under VDOT control and do not logically speak to one another for data integration and service delivery. The APA recommendation to retain documentation to show that a reconciliation is complete has been accepted and corrective actions have been implemented during the period of review. In addition, a wage employee has been hired to focus solely on reconciliations and other *myVRS* issues.

**Complete Separating Employee Checklists Timely**

The Department acknowledges that the completion of a separating employee checklist is one means of ensuring all necessary actions are taken to appropriately out process a separating employee. During the period of review, VDOT Human Resources identified an automated means for monitoring submission of separating employee checklists. We now believe that the agency is in a better position to monitor compliance.

I thank you and your staff for all of your assistance and guidance during this review.

Sincerely,



Stephen C. Brich, P.E.  
Commissioner

c: The Honorable Shannon R. Valentine  
Chief Deputy Commissioner  
Executive Staff



# COMMONWEALTH of VIRGINIA

Department of Motor Vehicles  
2300 West Broad Street

Richard D. Holcomb  
Commissioner

Post Office Box 27412  
Richmond, VA 23269-0001

January 16, 2018

Ms. Martha S. Mavredes  
Auditor of Public Accounts  
Post Office Box 125  
Richmond, VA 23219

Dear Ms. Mavredes:

Thank you for this opportunity to respond to your latest audit of the Agencies of the Secretary of Transportation for the fiscal year ended June 30, 2017. We appreciate the professionalism of your staff and the guidance provided regarding our reporting and operations. We have reviewed your findings and offer the following responses.

## **Improve Controls over Financial Reporting**

The Department of Motor Vehicles (DMV) understands its responsibility to accurately prepare CAFR reports and made improvements this year. We also understand that there is still work to be done in particular as it relates to all payable and receivable types. While all funds were collected, accounted for and distributed correctly, we acknowledge the CAFR reporting errors that were made and know how to correct those for the next reporting period. We need to be more proactive in our approach to financial reporting. Consequently, the Fiscal Year End work plan provided by the DMV Controller to all divisions to ensure they are aware and up to date on DOA requirements will be changing. DMV is in the process of procuring services to assist with redesigning the financial reporting process with a more thorough internal control environment to ensure that all submissions to DMV Finance are accurate and properly reviewed internally before submission to DOA. This will include training of staff, development of checklists, policies and processes to ensure that all financial reporting is completely both timely and accurately.

## **Continue Improving Application Security Controls**

DMV understands the need for a comprehensive set of controls for ensuring proper authentication of applications and is taking the necessary steps to bring our current technical controls into alignment with Commonwealth security standards. For a successful implementation, the underlying infrastructure was first upgraded to ensure a solid platform to

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build upon. With the new infrastructure in place the development team's effort has been applied to the changes needed in the application to update the controls. Understanding that the impact to the Commonwealth is significant, an extensive amount of code review and testing is required which was the driving force behind the established timeline for the project.

#### **Improve Database Security**

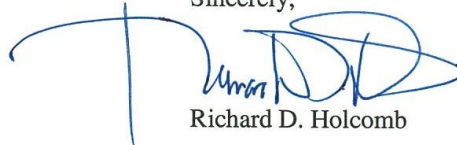
DMV agrees with the APA on the importance of proper database security supporting mission critical systems and has developed baseline security configurations that exceed the requirements of Commonwealth security standards to meet our needs. As identified during the audit, compliance must be maintained during upgrades and new developments, and oversight on these controls must be performed. To mitigate this finding we will strengthen our database maintenance procedures and expand our monitoring capability of the database environment.

#### **Improve Information Technology Change Management Program**

DMV recognizes its obligation for the protection of configuration information found within change management requests and is taking the steps necessary to improve it. The current process utilized VITA services that were considered secure in the past but have since been determined deficient for our needs. The agency had multiple representatives on the selection team for the new VITA Managed Service Integrator, and provided security requirements for the change management platform being delivered. With the impending implementation of the new platform this year, the agency feels it's in the best interest of the taxpayers that we not invest in new solution today but instead establish a series of mitigating controls that will ensure the required level of protection while we focus our resources on the migration to the new platform being provided.

DMV will be working with the Department of Accounts on our corrective actions regarding these findings. Please let me know if you have any questions or concerns.

Sincerely,

A handwritten signature in blue ink, appearing to read "Richard D. Holcomb", is written over a large, stylized blue "T" mark.

Richard D. Holcomb

RDH:sc

## AGENCY OFFICIALS

As of June 30, 2017

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Grindly Johnson, Deputy Secretary of Transportation  
Nick Donohue, Deputy Secretary of Transportation

### Department of Transportation

Charles A. Kilpatrick, Commissioner

### Department of Motor Vehicles

Richard D. Holcomb, Commissioner

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